



Examiners' Report June 2022

GCE Business 9BS0 02

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Introduction

Overall there was a mixed response to the demands of this paper. Candidates generally showed good subject knowledge and were able to structure their responses according to the different demands of the question. Stronger candidates revealed good numerical ability and were able to make selective use of the extracts to support their arguments. They also showed the ability to make well developed arguments both for and against a particular topic, leading to a supported judgement. Weaker candidates often revealed gaps in knowledge, for example incorrect calculations due to inaccurate use of formulae and/or lack of understanding of certain topics. Weaker responses would typically consist of many arguments that lacked development and that were not supported by information from the extracts. A common mistake was for candidates to spend too long on the more accessible questions, such as Q1(e), resulting in a lack of time available for other questions. The questions that proved most challenging for the majority of candidates were Q1(d), which examined the concept of working capital and Q2(e), which tested candidates' knowledge of the difference between cash flow and profit.

Question 1 (a)

This question was generally well answered. However there were a significant number of candidates who were unable to remember the correct formula for calculating gearing. Another common mistake was the incorrect calculation of capital employed, with candidates subtracting non current liabilities from total equity rather than adding it.

- 1 (a) Using the data from Extract A, calculate the difference in the gearing ratio for easyJet plc between 2019 and 2020. You should state the difference to two decimal places. You are advised to show your working.

(4)

$$\begin{aligned} & \frac{\text{Non current liability (NCL)}}{\text{net total equity + NCL}} \times 100 \\ & \frac{2748}{1899 + 2748} \times 100 = 59.13\% \\ & 59.13 \\ & - 45.67 \\ & \hline & 13.46\% \end{aligned}$$

Ans = 13.46%



This response was awarded full marks. The candidate shows good exam technique by stating the formula, followed by each stage of the calculation.



For calculation questions, it is advised that candidates show each stage of their workings. This enables marks to be awarded even if the final answer is incorrect.

- 1 (a) Using the data from Extract A, calculate the difference in the gearing ratio for easyJet plc between 2019 and 2020. You should state the difference to two decimal places. You are advised to show your working.

(4)

$$\text{Gearing Ratio} = \frac{\text{Non-current liabilities}}{\text{capital employed}} \times 100\%$$

2019:

45.67%

2020:

$$\frac{2748}{1899} \times 100\%$$

$$= 144.71\%$$

Difference:

$$(2020) \quad 144.71\% - 45.67\% = 99.03774092\%$$

$$= \underline{99.04\%}$$



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Examiner Comments

This response was awarded 1 mark for stating the correct formula for gearing. Unfortunately the calculation for capital employed was incorrect, resulting in the final figure also being incorrect.

Question 1 (b)

The majority of candidates revealed good knowledge of capacity utilisation. Stronger responses were able to explain the effects of reduced capacity utilisation in relation to easyJet by using the figures from the extract and explaining how typical fixed costs associated with operating an aeroplane, eg cabin staff wages, would be spread over fewer passengers, leading to a rise in unit costs. Positive effects of reduced capacity utilisation were also credited.

(b) Explain **one** effect on easyJet plc of the reduced capacity utilisation of its aircraft in 2020.

(4)

Capacity utilisation is how effectively a business is utilising their capacity which affects their output. With the fall of easyJet's capacity utilisation falling from "91.5%" (2019) to "87.2%" (2020). This allows staff a little less busy workload, such as pilots and air hostesses ~~more time to have a break~~ etc. Therefore they can have more time to have breaks. Therefore meeting their safety needs according to Merton. Therefore being ~~more~~ ^{more} motivated. Allowing them to provide better and more exceptional customer service e.g. deal with customer complaints. Making easyJet more price inelastic and differentiated in a competitive market with competition from competitors such as Ryanair.



This response was awarded full marks. It begins by providing a correct definition of capacity utilisation. Application marks are awarded for quoting the figures showing the fall in capacity utilisation and effective use of context by explaining a benefit of this in terms of pilots and air hostesses having more time to provide better customer service.



The only criticism of this response is that it is too long. Candidates should aim to write concise responses in order to free up more time for the other questions.

(b) Explain **one** effect on easyJet plc of the reduced capacity utilisation of its aircraft in 2020.

(4)

Capacity utilisation is how much of the maximum possible capacity is being used. One effect is that easyJet plc will suffer from a reduce in profit margins. This is because unit costs will stay the same but sales will decrease. This will limit how much easyJet will be able to spend on research and development.



ResultsPlus
Examiner Comments

This response was awarded 1 mark for showing understanding of capacity utilisation. Application marks were not awarded because the candidate has not made any use of the data or material in the Extract. The analysis is also incorrect because the candidate has stated that unit costs will remain the same.



ResultsPlus
Examiner Tip

Remember that there are 2 marks for application for 4 mark 'explain' questions.

Question 1 (c)

This proved to be an accessible question for the majority of candidates. There was good knowledge of Porter's five forces and candidates often wrote well developed arguments supported by relevant information from the extracts explaining the significance of the bargaining power of buyers to easyJet. Responses were also well structured, with candidates selecting another of Porter's five forces to explain a counter argument, leading to a supported judgement. Weaker responses revealed a less complete understanding of Porter, eg a common mistake was to confuse the 'threat of substitutes' with the 'threat of new entrants'. Another mistake was to write lengthy responses which considered more than two of Porter's five forces and often drifted away from the focus of the question.

(c) Assess, with reference to Porter's five forces, whether the 'bargaining power of buyers' represents the most significant external influence on easyJet plc.

(10)

Bargaining power of buyers can be seen to be the most significant external influence on easyJet plc. This is because ~~the costs~~ even if aeroplanes are expensive assets and ~~they~~ they are under utilised ~~as a~~, easyJet plc would still be required to pay the ^{fixed} ~~costs~~ and the fluctuating ~~of~~ fuel prices. If the travellers (who have been affected due to the travel restrictions) do not catch flights, the ~~of~~ capacity utilisation would be low for easyJet plc suggesting that ~~the~~ fixed costs would be spread across less ~~of~~ travellers which may affect their ~~own~~ operating profit margins. ~~Therefore,~~

However, the travel restrictions have affected many airline companies and it may not matter so much to ~~the~~ easyJet as they offer package holidays and best prices. The bargaining power may be low ~~as~~ and travellers would not travel with other flights either. Other external influences such as the environmental factors, easyJet already has low prices however, if ~~the~~ 90% of customers are more

Concerned with the environmental impact of air. The sustainability strategy may mean that easyjet have a competitive advantage over other airlines and customers would be satisfied and travel with easyjet as ~~the result~~ this is more important to them.

In conclusion, I think that the environmental impacts are more significant or ~~possibly~~ ~~by~~ having hydrogen powered aircraft would help easyjet avoid fluctuating ~~and~~ fuel prices as well as help satisfy the needs of the 90% of customers (show it is a major problem).



ResultsPlus
Examiner Comments

This response was awarded Level 2 – 4 marks. It reveals elements of understanding of Porter's five forces by recognising the importance of customers and there is an attempt to relate this to easyjet. However the chain of reasoning lacks focus on the question and the counter argument is not credited because it does not relate to Porter's five forces.



ResultsPlus
Examiner Tip

It is important that candidates have a clear understanding of the topic being examined and ensure that responses are clearly focused on the demands of the question.

yes/no. Power over tickets by plane does. Supply plane parts (CA plane to the). Comp.

(c) Assess, with reference to Porter's five forces, whether the 'bargaining power of buyers' represents the most significant external influence on easyJet plc.

(10)

Porter's five forces assesses external factors affecting competitiveness.

Bargaining power of buyers can be seen as the most significant external influence on easyJet plc because buyers are the ones buying tickets for the planes and without them buying tickets the plane would be an empty plane. Therefore bargaining power of buyers like the 43 million customers can be seen most significant as they are reliant on them to cover their costs and use EasyJet Planes. If the customers stop buying tickets from easyJet this will immediately have negative effects on easyJet as they won't be able to cover the costs of their planes and this charge would also affect their break-even point.

However, it may not be the most significant because during holiday and popular seasons, the buyers are reliant on easyJet because there isn't as much of a lot of alternatives where the planes, therefore easyJet dictate and have the power again and other factors could be considered more important.

Bargaining power of buyers can be seen as not as a significant external influence on easyJet plc.

While competition on threat of rivalry can be seen as more important because yes, consumers dictate prices but competitors such as Ryan air and the rise of a new generation of budget airlines challenging dominance of Easy Jet, which can be seen as more important as they are taking customers away. Therefore, because the rivalry threat Easy Jet could lose customers and damage their sales. This leads to Easy Jet losing customers which results in less sales and profits which could ultimately lead Easy Jet to become bankrupt.

However, Easy Jet is the 7th largest airline in the world so because it has an established name it may not be affected by the rise of a new generation of budget airlines due to already being established and having customer loyalty.

// Overall, bargaining power of buyers can be seen as the most significant external factor influence because the ticket sales rely on customers buying them. It also depends how popular Easy Jet are and level of rivalry of new rivalry competitors. But, moreover because Easy Jet is seventh largest airline in world it will have loyal customers so rivalry can be seen less of a threat and therefore bargaining power of buyers can be seen as most important external influence, due to controlling how many tickets they buy, etc.



This response was awarded Level 3 - 9 marks. It is well structured with separate paragraphs for each argument and the conclusion. The bargaining power of buyer's argument is well developed with consistent use of context. An evaluative comment is also included at the end of the paragraph. A valid counter argument of the threat of rivals is also well developed and contextualised. The final paragraph provides a supported judgement which directly answers the question.



The use of 'scaffolding' is a great technique to show candidates how to structure their responses for 10, 12 and 20 mark questions. Fewer arguments that are well developed and consistently supported by the context will enable candidates to access the higher levels of the mark scheme.

Question 1 (d)

This was a challenging question for the majority of candidates. Candidates were typically unable to show a complete understanding of working capital in relation to easyJet. Most candidates could provide a correct definition of working capital and recognised that the price of jet fuel had risen, usually by quoting the figures from the graph. However the arguments provided did not focus upon the concept of the effect upon working capital. A common mistake was that the increased costs would lead to a fall in profits and/or force easyJet to increase its prices, leading to a fall in revenue. Stronger responses recognised the effects of increased prices on easyJet's liquidity, with consistent reference to current assets and current liabilities. Based upon the evidence from this question, it appears that many candidates do not fully understand the concept of working capital.

Nov 15 just over \$35 a barrel, over \$85 a barrel

- (d) Assess whether the change in price of jet fuel between November 2015 and July 2018 may have affected easyJet plc's management of its working capital.

(12)

Working capital is equal to current assets - current liabilities.

Working capital is required to pay the day-to-day running costs of a business. One reason a rise in the price of oil may have affected the working capital management of EasyJet is that the rise in price was significant from $\approx \$35$ per barrel in Nov 2015 to over double that in July 2018 at $\approx \$85$ a barrel. This ^{as fuel accounts for a third of total costs} means current liabilities would rise ^{drastically} without a proportionate rise in current assets which could lead to a negative working capital which ^{may} lead to EasyJet being unable to pay off short-term debts or to ^{enough} buy raw materials like fuel to maintain the running of the business. Therefore, EasyJet may have to negotiate longer trade terms with suppliers or perhaps reduce their stocks of fuel and operate on a just-in-time system to reduce storage costs and ensure ^{current} assets are mostly liquid i.e. not inventory.

On the other hand, a rise in fuel prices may not affect the working capital management of EasyJet. This is because the airline industry has a relatively quick conversion of ~~materials~~ raw materials into a delivered service for customers. In other words as there are regular flights, airlines will always have a regular flow of sales meaning their ability to pay for day-to-day running costs is much better. Therefore, even if there is a rise in the cost of raw materials, EasyJet may not have to increase its working capital as they have a steady flow of cash coming in. The

business. This may mean they are able to operate with negative working capital similar to the supermarket industry. Moreover, as Easyjet is a Plc, it would be easy for them to improve working capital as they can introduce fresh capital to the business by issuing new shares.

To summarise, the need for Easyjet to alter its working capital is dependent on whether the change in the price of oil is just a short-term fluctuation or is a part of a long-term trend. If the rise were to persist it is likely that Easyjet would have to alter its working capital to ^{ensure they are} able to pay off current liabilities. For example, they could do this by passing costs onto the consumer and raising selling price.



ResultsPlus
Examiner Comments

This is a strong response that was awarded Level 4 – 11 marks. It reveals good understanding of working capital by consistently using relevant terms such as current assets, current liabilities and liquidity. The response is balanced by providing well developed arguments supported by context explaining both the negative effects of the rise in jet fuel prices, but also the actions easyjet can take to mitigate the effects. There is also impressive understanding of the nature of easyjet's business by using the regular cash inflow of customers taking flights would reduce the need for large amounts of working capital.



ResultsPlus
Examiner Tip

Working capital is a concept that many candidates struggle with. It is important that candidates prepare well by thoroughly revising each topic in the specification.

(d) Assess whether the change in price of jet fuel between November 2015 and July 2018 may have affected easyJet plc's management of its working capital.

(12)

For Easy Jet, the change in price of jet fuel has increased from \$36 per barrel in November 2015 to \$87 per barrel in July 2018. This increase in price may have affected EasyJet plc's management of its working capital as now more capital should be allocated towards jet fuel. This means that EasyJet need to ~~manage~~ re-manage where their capital is going toward which may cause confusion.

The change in price of jet fuel may cause Easy Jet to increase the price of plane tickets for customers in order to ensure that it covers the costs of the increased jet fuel price of \$87 per barrel.

The change in the price of jet fuel may cause easyjet to have less capital towards other expenses such as catering for the plane ride.

This may affect easyjet plc's management of its working capital as they now have to put more capital toward jet fuel and less toward other, this may cause less customers to choose easyjet as they have a shift in focus now due to the ~~the~~ change in jet fuel from \$36 per barrel to \$87.



This response was awarded Level 2 – 4 marks. There is a recognition of the increase in the price of jet fuel and correct figures are used to illustrate this. However there is only limited understanding of working capital. Arguments regarding possible negative effects lack focus on working capital and are mainly based upon assertion. No counter argument or overall judgement is provided.

Question 1 (e)

This proved to be an accessible question for the majority of candidates. Stronger responses made selective, well developed arguments for both options consistently supported by material from the extracts. This led to a well-supported recommendation with insightful use of 'MOPS'. Weaker responses tended to offer a 'scatter gun' approach, consisting of too many arguments which often lacked analysis and application. Recommendations were often based upon assertion or simply repeated previous arguments. A common mistake was to write lengthy answers which lacked focus and as a consequence many candidates had insufficient time to fully attempt later questions.

EasyJet plc wishes to improve its profitability. To achieve this, easyJet plc is considering either purchasing a new fleet of electric and hydrogen powered aircraft or focusing on increasing its market share of the package holiday market.

(e) Evaluate these **two** options and recommend which one is more suitable for easyJet plc to improve its profitability.

(20)

One benefit of purchasing a new fleet of electric and hydrogen powered aircraft to improve profitability is it would wash away the concerns of ~~that~~ that 94% easyJet customers who are concerned about the environmental impacts. This is because it's a "sustainability strategy" which aims to achieve net zero carbon emission. This means that EasyJet's reputation would improve as they are going to become more eco friendly. This may results in a improved capacity utilisation as there has been 4.3% decrease between 2019 and 2020. So this new technology might bring in more customers and retain old ones, therefore increase their market share.

However one drawback of this new fleet ~~and~~ of electric and hydrogen powered aircraft is ~~it~~ its very time consuming and expensive to build. This is because ~~it~~ it's a new innovative technology. This means that it's a risk to even start building it, because if ~~it~~ one of easyJet's competitors such as Ryanair faster to develop it, then Ryanair ~~will~~ ~~take~~ all the market ~~share~~ will gain more market share ^{out of it} as they were the one to introduce it first. This would

result in ~~a~~ a loss of market share plus funds on developing the new technology aircraft.

One benefit for Easy Jet to focus on ~~the~~ increasing its market share of ~~the~~ the package holiday market ~~to~~ to improve its profitability is easy Jet well known of package holidays as at present 97% of its customers travel for leisure so they aiming at them. This is because they are more likely to take the package holidays. This means that through them Easy Jet can improve its market share on the package holiday market.

However, one drawback of this strategy is that customers might not take it. This is because most of the people likes to plan their holidays by themselves. This means that it's maybe a loss of capital to advertise these sort of packages so this ~~would~~ might not improve the business profitability.



This response was awarded Level 2 – 8 marks. The argument for electric and hydrogen powered aircraft reveals knowledge, application and analysis, however some of the points made are incomplete. The argument for package holidays has merit, but the arguments made have limited development and use of context. The final judgement is only partly supported by the previous arguments.



To be awarded Level 4, arguments need to be well developed with coherent chains of reasoning and consistently supported by context. Candidates should be encouraged to make fewer arguments but to ensure that they are well developed and contextualised.

EasyJet plc wishes to improve its profitability. To achieve this, easyJet plc is considering either purchasing a new fleet of electric and hydrogen powered aircraft or focusing on increasing its market share of the package holiday market.

- (e) Evaluate these **two** options and recommend which one is more suitable for easyJet plc to improve its profitability.

(20)

EasyJet could improve its profitability by purchasing a new fleet of electric and hydrogen aircraft. This is because, easyJet would then be unaffected by the rise in jet fuel prices as they may no longer require as much fuel. Hence, the rise in prices would then not result in an increase in easyJet's costs and so maintain their profitability. Furthermore, easyJet's consumers highlighted their environmental concerns with the impact of air travel. Hence, if easyJet were to purchase a new fleet of electric / hydrogen powered aircraft they would be successfully replying to their customers' concerns. This represents CSR, which positively impacts easyJet's reputation. As one of the first airlines to implement this strategy, consumers may become more likely to fly with easyJet. This is because easyJet would have a positive brand image. As consumers become more likely to fly with easyJet, the increase in sales revenue results in an increase in profitability. However, easyJet may be attempting to implement

a strategy that is entirely new to them. Hence, due to the lack of experience with hydrogen powered aircraft, it may result in an increase in costs. This is because pilots may require training, which would be costly for easyjet. Furthermore the possibility of malfunctions also results in an increase in costs, as it reduces the amount of flights that easyjet could operate with, as well as the costs of repairing the aircraft. Not to forget the initial research and development costs of creating the new airlines. And so, although it seems hydrogen powered airlines may be beneficial, they may instead result in a rise in costs, and so decreasing profitability.

The second option easyjet could do is to increase its market share of the package holiday market. As easyjet have built themselves a reputation consumers are likely to trust easyjet in also providing them with affordable holiday packages. This is a form of product development, and so can increase revenue as easyjet have already attracted their target market. With 97% of their customers travelling for leisure, it may be easy in finding sales of holiday

packages, especially with a best price guarantee. Furthermore the ability to cancel prior to 28 days of departure, may further increase sales as customers are aware they can save their money, in the case of an emergency, and so acting as an incentive. Thereby, the increase in market share of easy jet's holiday packages may be easily attainable and so increase profitability. However, the holiday packages market may be considered to be saturated. There are many comparison websites offering customers with an insight into cheap package deals, as well as alternative such as 'Air bnb' on the rise. Thereby, this may make it difficult for easyjet to gain market share, and so increase profitability.

To conclude the options may depend on the current market. There may be a larger emphasis on protecting the environment in 2022, and so introducing a hydrogen powered aircraft may be the best method of increasing profitability. As long as easyjet meets the current market needs, they may successfully be able to achieve profitability.



This response was awarded Level 4 – 17 marks. It is well structured, with separate arguments for each option and the final recommendation. Arguments for each option are well developed and supported with consistent use of material from the extracts. The limitations of each option are also considered. The final recommendation could have been more detailed, but it is supported by the previous arguments. Furthermore, there is use of 'MOPS' because the candidate has recognised the current awareness of environmental issues that are affecting the airline market.



To reach the higher marks in Level 4, candidates need to make use of 'MOPS' to justify the overall recommendation.

Question 2 (a)

The majority of candidates were able to complete the calculations correctly. Common mistakes were not calculating the moving averages to two decimal places and stating the difference between the two moving averages.

- 2 (a) Using the information in Extract F, calculate the three period moving averages for the percentage of rooms occupied for the periods March to May and June to August to two decimal places, stating the difference between these moving averages. You are advised to show your working.

(4)

$$\text{March to May} = 30 + 45 + 70 = 145$$

$$145 \div 3 = 48.3$$

$$\text{June to August} = 70 + 90 + 90 = 250$$

$$250 \div 3 = 83.3$$

$$83.3 - 48.3 = \del{35}$$

$$78.86 - 62.16 = \underline{16.7}$$



ResultsPlus
Examiner Comments

This response was awarded 2 marks. There is correct calculation of both moving averages, but the candidate has not calculated them to 2 decimal places. The difference has also not been calculated.



ResultsPlus
Examiner Tip

Always complete calculations to 2 decimal places if the question states that this is required.

- 2 (a) Using the information in Extract F, calculate the three period moving averages for the percentage of rooms occupied for the periods March to May and June to August to two decimal places, stating the difference between these moving averages. You are advised to show your working.

(4)

$$\text{March} \rightarrow \text{May} \rightarrow \frac{30 + 45 + 70}{3} = 48.3\%$$

$$\text{June} \rightarrow \text{August} \rightarrow \frac{70 + 90 + 90}{3} = 83.3\%$$

$$83.3\% - 48.3\% = 35.0\%$$



ResultsPlus
Examiner Comments

This response was awarded 3 marks. Both calculations were correct, but not stated to 2 decimal places. The difference was calculated but with one error.

Question 2 (b)

Generally this question was well answered, although a significant minority of candidates showed incorrect understanding of the formula to calculate break-even. A common mistake was to calculate the annual rather than the monthly break-even figure. Some candidates divided fixed costs by 9 months rather than 12, but as long as the calculation was correct, they still gained full marks.

(b) Using the information in Extract G, calculate how many rooms need to be occupied each month for the business to break-even.

(4)

$$\text{Break even} = \frac{\text{Fixed costs}}{\text{contribution.}}$$

$$\text{contribution} = \text{selling price} - \text{variable cost}^{\text{per unit}}$$

$$\text{contribution} = 84 - 34 = 50$$

$$\text{fixed costs} = 30\,000$$

$$\text{Break even} = \frac{30\,000}{50} = 600.$$

£600.



ResultsPlus
Examiner Comments

Correct calculation of the annual break-even amount but the candidate has failed to calculate the monthly amount – 3 marks awarded.

(b) Using the information in Extract G, calculate how many rooms need to be occupied each month for the business to break-even.

(4)

$$\begin{aligned}\text{Break even} &= \frac{\text{fixed costs}}{\text{contribution per unit}} \\ \text{Contribution} &= \text{selling price} - \text{variable cost per unit} \\ &= £24 - £34 \\ &= £50 \\ \text{Annual fixed costs} &= £30,000 \div 12 \\ &= 2500 \text{ (fixed cost per month)} \\ \text{Break even} &= \frac{£2500}{50} = 50 \text{ rooms}\end{aligned}$$



ResultsPlus
Examiner Comments

Correct calculation with all workings shown – 4 marks awarded.



ResultsPlus
Examiner Tip

With calculation questions, it is always a good idea to state the formula first.

Question 2 (c)

The majority of candidates revealed good understanding of historical budgeting. Stronger responses were able to provide arguments both for and against its use, supported by relevant material from the extracts, leading to a focused conclusion. Weaker responses revealed confused understanding of the purpose of budgeting and/or failed to relate arguments to the actual business.

(c) Assess the value of historical budgeting to Les and Liz in their financial planning for Bluebells.

(10)

Historical budgeting is ~~budgeting based~~ financial planning based on past figures and data, which can then be used to plan costs ~~for~~ and expenses for the upcoming year.

An ~~advantage~~ advantage for historical budgeting for Les and Liz is their occupancy is seasonal, meaning it is easy to see each year how many people visit ~~the~~ Bluebells, which gives them ~~a~~ nice steady figures to base their budgets around. Another advantage of historical budgeting for Bluebells is they have been open for ~~over~~ over 15 years meaning they have lots of previous data to base their budgeting on, showing the growth of the business and the likely trends of the next season.

However, a disadvantage of historical budgeting for Bluebells is its based on past figures, you can't always predict the ~~a~~ trends of the next year. Les and Liz could have a bad Tripadvisor review, ruining their reputation, this can't be planned into a budget. Liz and Les are also ~~or~~ unlikely to have included the growth of other ~~the~~ UK holiday destinations, which

will have an impact on them eventually. Another disadvantage of historical budgeting is ~~it~~ ~~doesn't~~ ~~take~~ you can't predict ~~these~~ sudden events such as an economic crisis or pandemic.

On balance, historical budgeting is very effective for Bluebell's financial planning, despite potential inaccuracies overall it will help their business, ensuring they break-even, and are able to put ^{50% of} ~~some~~ profits back into the business.



This response was awarded Level 3 – 8 marks. It is well structured with separate paragraphs for each argument and the conclusion. There is good understanding of historical budgeting with developed arguments explaining its value and limitations. Each argument is consistently supported by evidence from the extracts, leading to a supported conclusion.



It is important to support each argument with context in order to achieve Level 3 marks.

(c) Assess the value of historical budgeting to Les and Liz in their financial planning for Bluebells.

(10)

A reason historical budgeting may be great value to Bluebells could be since it may ~~allow them~~ give them good suggestions of when & where to reinvest the 50% of its profits back into the business as ~~if~~ if they have periods where they see adverse (bad/negative) variances in the budgets, this may indicate a good time to lucratively use those retained profits for the problems as opposed to favourable variances where it may not be needed as much, giving historic budgets value.

However historic budgets are based on past data, meaning they neglect future possible external shocks, making them less useful in dynamic markets & as blue bells is operating in a seasonal market, risk of external shocks is high which would make the budgets useless, lowering its value.



This response was awarded Level 2 – 4 marks. It is only at the beginning of the second paragraph that the candidate reveals understanding of historical budgeting. In the first paragraph the candidate provides generic arguments regarding budgeting. There is limited development of arguments and use of context. No overall judgement is provided.



Candidates are expected to provide a final judgement and/or conclusion to 10, 12 and 20 mark questions in order to achieve the top level in the mark scheme.

Question 2 (d)

The majority of candidates were able to provide a correct definition of SWOT. Stronger responses focused on the usefulness of SWOT, providing well developed arguments in terms of its strengths and limitations, consistently supported by the selective use of material from the extracts. Conclusions provided were supported by the previous arguments. Weaker responses tended to be descriptive, simply listing the elements of SWOT in relation to Bluebells but not in terms of its usefulness to the business.

(d) Assess the usefulness of SWOT analysis for Bluebells' continued success.

(12)

A SWOT analysis is a test carried out to see what a businesses strengths, weaknesses, opportunities and threats are.

I think a SWOT analysis would be useful for Bluebells as this may help identify the ~~areas~~ areas that they are strong at.

They often receive 5 star ratings on tripadvisor and by performing a SWOT analysis, they can see why they get 5 stars. This information could then be used as a selling point in their adverts and could help increase demand for their bed and breakfast.

However, I think a SWOT is not useful.

A SWOT analysis is an extra cost to the business. As Bluebells is currently very successful and so do not require a SWOT analysis to take place. This is because they receive 5 star ratings. The SWOT analysis should not be payed for, instead they could pay someone to look at building an extension. This way they could receive their extra utilisation further.

On the other hand, ~~a~~ a swot would be useful as it will show les and Liz potential external opportunities and threats to their business. As a result, ~~see as~~ Bluebell's will be able to be more proactive and less reactive to external events giving them a competitive advantage over rivals in the industry. This may also help them see opportunities for ~~a~~ further growth and expansion in the sector.

However, if Liz and Les carry out their own swot analysis, bias may be introduced. They may think they are better than they are at strengths or may fail to see crucial weaknesses. As a result the swot will be inaccurate and not very useful to continue Bluebell's success.

To conclude, overall I think a swot would be a great thing to do, however the business is very successful so may not require it. It will help Les and Liz make improvements to their business and will enable opportunities to be seen in the future. For even better results, I would recommend a PESTEL analysis was carried out too, to maximise usefulness.



This response was awarded Level 4 – 9 marks. It reveals good understanding of SWOT. Arguments for and against its usefulness are coherent with chains of reasoning. There is some use of context, but this could have been stronger, resulting in a mark at the bottom of Level 4. A supported judgement is provided and enhanced with a recommendation that other techniques such as PESTLE could be used in addition to SWOT.



It is important to focus on the specific demands of the question. In this case, candidates were expected to focus on the usefulness of SWOT in terms of helping continued success, rather than a generic response on how SWOT can be used.

(d) Assess the usefulness of SWOT analysis for Bluebells' continued success.

(12)

SWOT analysis analyses the Strengths, weakness, opportunities and threats to the business both internally and externally. It's useful for Bluebell to help them understand the market in such a competitive industry especially for holiday accommodation in Keswick. As the market in such a small area is competitive they need to better understand the market to up them against competitors. They have analysed opportunities such as knowing the market is seasonal between May - Sep September meaning they know when demand will be at their highest meaning at other times of the year the costs will stay low as the ~~costs~~ but with a wide choice of accommodation they are able to compete with all different types of customers, potentially attracting new customers and much more likely fitting the needs and wants of customers.

It's important for Bluebells to assess the market so they understand the market size and needs and wants of customers.



This response was awarded at the bottom of Level 3 – 5 marks. It reveals good understanding of SWOT and the first paragraph explains its usefulness, supported by context. However no counter argument and overall judgement is provided.



'Assess' questions always require candidates to provide a balanced response with arguments both for and against.

Question 2 (e)

This proved to be the most challenging question on the paper. There were many examples of candidates running out of time leading to incomplete responses. Although most candidates revealed good knowledge of cash flow and profit, a common mistake was misinterpretation of the question. Typically candidates provided responses that considered how Bluebells could improve its cash flow and profit, rather than why improving cash flow and increasing profit were important for managing Bluebells' finances more effectively. Due to this lack of focus on the question, candidates could only be awarded Level 2 or low Level 3 marks. The minority of candidates who interpreted this question correctly were able to write strong responses that provided well developed arguments explaining why both cash flow and profit are important for effective financial management, consistently supported by examples from the extract. Recommendations were fully supported by previous arguments and made effective use of 'MOPS'. Based upon the evidence seen from the majority of responses to this question, the concept of cash flow verses profit is one that many candidates struggle with.

Liz and Les have set themselves the objective of managing Bluebells' finances more effectively. They are considering whether to focus more on improving cash flow or increasing profit. → ~~don't kill business~~

(e) Evaluate these **two** options and recommend which one is more suitable for Liz and Les to achieve this objective.

(20)

Cashflow is the flow of ~~more~~ cash in and out of the business.

One reason to focus on cashflow is to allow business operators to function adequately. This is shown by Liz and Les' accommodation having to meet bill payments as one short term finance. Meaning if there cash is poor the business can potentially go bust. This is significant because Liz and Les have a low occupancy rate in May April and November but still have to pay fixed overhead costs which may damage their cashflow, because outflows remain the same while inflows decrease. However, cashflow is fairly proportional to the number of sales so if inflows decrease then ~~outflows~~ ^{variable costs} should not be as high and decrease too.

One reason to focus on ~~profitability~~ ^{managing} profit is to reinvest their current amount. This is shown by a retained profit rate of 50%, which is high. Meaning ~~these~~ ^{the} reinvested amount

can be spent on developing facilities to make their accommodation more attractive to customers which increases their ~~strength~~ ~~power~~ of ~~substitutes~~ competitive rivalry so they are more competitive in the tourism market to further increase their market share. ~~It~~ ~~to~~ Significantly increased profit also allows Liz and Liz to gain more pay so they are motivated to carry on with the business. ~~However~~ Retained profits are shown by window replacements and fuel efficient boilers. However, if Liz and Lee focus too much on profit they can potentially lose focus on other aspects of finance like raising finance from internal or external sources.

As the business operates in a niche accommodation market and are trying to achieve more effective management of finance. I recommend Liz and Lee focus on cash flow because a negative cash flow can instantly kill the business whereas poor profit can be improved over time through different structural moves. ~~Leaving to~~ Cash flow is vital to managing finance as if not managed correctly, could result in the business not surviving.



This response was awarded Level 4 – 16 marks. Although it is relatively brief, it is consistently focused upon the demands of the question. Arguments for each option are logical, have coherent chains of reasoning and are consistently supported by the context. The candidate has made effective use of time by focusing on the merits of each option and less on discussing the limitations. Evaluation marks can still be awarded due to the candidate providing a supported recommendation.



It is important that candidates leave sufficient time to fully attempt the final 20 mark question. For candidates that struggle with time management, centres may advise them to attempt this question earlier.

Liz and Les have set themselves the objective of managing Bluebells' finances more effectively. They are considering whether to focus more on improving cash flow or increasing profit.

- (e) Evaluate these **two** options and recommend which one is more suitable for Liz and Les to achieve this objective.

(20)

Liz and Les may be able to increase profit if they expand the amount of rooms in the guesthouse. Variable and fixed costs are ~~at~~ quite high for a only 7 rooms. Much more revenue would be generated with extra rooms as they already charge £84 per night. Bluebells is located in an area of mass tourism being in Cumbria. In Cumbria tourism ~~are~~ ^{are} ~~equivalent~~ ^{equivalent} for £1 billion in revenue for the area. Bluebells would very much likely to be able to fill the rooms in heavy periods. However Bluebells go through periods of dryer sales. An example is in March and November only 30% of 7 rooms are occupied, this is very little capital ~~make~~ ^{making} considering the only open 9 months of the year.

However an increase in sales during busier periods such as August may be the right time to expand.

Even in July and August they still don't reach 100% rooms used. This may support improving cash flow as a better alternative option. Cashflow will give the business more control over finances and may even boost their liquidity.

Overall I think that Bluebells should try and increase profit. This is because I ~~may~~ think ~~that~~ they have the potential to expand and take advantages of the competitive market.



This response was awarded Level 2 – 8 marks. It reveals understanding of the concept of increasing profit, but the argument provided lacks focus on the question. This is because the candidate provides arguments that focus on how the business could improve its profits, rather than why increasing profits is important for effective financial management. The second option regarding cash flow is superficial. It appears that this candidate left insufficient time to fully answer this question.



The concept of cash flow verses profit is a difficult one for many candidates. Centres are advised to spend more time with their candidates on this concept in order to improve their level of understanding.

Paper Summary

Considering that the candidates who took this exam have limited experience of public examinations, it is understandable that a significant number struggled with the demands of the paper.

Based on their performance on this paper, candidates should:

- take care not to spend too long on certain questions, as this results in a lack of time for others.
- increase their understanding of the concepts and topics such as working capital and the difference between cash flow and profit, as these areas proved to be challenging for most candidates.
- structure their responses to the specific demands of each question. As with previous exams, the key differentiator is exam technique. Candidates who perform well reveal good subject knowledge, are able to make fewer but well developed arguments supported by appropriate context and provide judgements based upon previous analysis.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

